

The Arkansas Development Finance Authority  
Below Market Interest Rate (BMIR) Loan Housing Program  
(Reincentive Plan)  
FINAL

*Background Information*

Approximately 301 multi-family housing mortgage loans of the U.S. Department of Housing and Urban Development (the "HUD") commonly referred to as below market interest rate loans (the "BMIR Loans") were purchased by the Arkansas Development Finance Authority (the "Authority") by the issuance in June 1988 of its \$215,625,000 Government National Mortgage Association Guaranteed Bonds (the "GNMA Bonds"). The innovative financing by the Authority was accomplished in order to provide assurances to low-income housing advocates regarding preservation of the low-income rental housing projects which secure the BMIR loans. The BMIR Loans also prohibited prepayments for a period of twenty (20) years. Many of the BMIR Loans were entered into during the late 1960s through the mid 1970s. The fact that soon after the sale a large number of loans would be eligible for prepayment and upon prepayment many owners would convert the projects to market rate rental and displace low-income tenants was a serious concern for HUD and many low-income housing advocates.

The Authority and eleven other state housing finance agencies agreed to reinvest or provide loans for low to moderate income rental housing in order to assure the HUD that any profits from the sale of the BMIR Loans would be used to preserve low to moderate income rental housing. Each of the participating housing finance agencies has developed plans to use the excess cash flow from the GNMA Bonds for preservation of or the development of low to moderate income housing projects.

The Authority has loaned excess cash flow from the BMIR Bonds (the "Loan Fund") since 1989 to various low to moderate income rental housing projects. The Authority deems it more appropriate to target such funds to assist rental housing developers for the purpose of providing very-low income rental housing within the State of Arkansas. The following program description and application for funding describe the manner in which the Authority will administer the Loan Fund.

*Program Description*

The Loan Fund will be available to any entity that conforms to the requirements for providing affordable housing under any of the Authority's affordable, rental housing programs for loans to finance the rehabilitation of existing rental housing and development and construction of new rental housing for very low-income persons and families. The Loan Fund will be administered as a revolving loan fund. Repayments of loans and additional excess cash flow from BMIR Bonds will be made available for future loans.

*Eligible Entity*

Any entity that demonstrates conformance with any of the Authority's affordable, rental housing programs is eligible to apply for a loan to assist in providing affordable, rental housing. To be eligible, the entity must apply for the loan in association with an application for funding requested under any of the Authority's affordable, rental housing programs through the use of the Authority's Multi-Family Housing Application. The Multi-Family Housing Application must be completed as required under the applicable affordable, rental housing program.

### *Qualified Development*

An eligible applicant may apply for a loan to acquire and rehabilitate existing housing units for rental or to construct new housing units for rental. The configuration of the development will be dependent upon the affordable housing needs of the area where the development is proposed as demonstrated by a market study conducted by a market analyst approved by the Authority. However, the loan proceeds may only be used to pay development costs: (a) chargeable for federal income tax purposes to the development's capital account; and (b) allocable to dwelling units: (i) to be occupied by "very-low" income households, *i.e., households whose income does not exceed 50% of the area median income*, and (ii) whose rents do not exceed 30% of the *applicable area median income*. The total number of such dwelling units, when compared to the total number of units developed, will equal the percentage the loan proceeds are to the development costs chargeable for federal income tax purposes to the development's capital account. The development must comply with the provisions of this Reinvestment Plan and any rule, regulation, policy or procedure required under the affordable, rental housing program administered by the Authority for which the loan is requested.

### *Loan Terms*

The only limit to the amount that may be requested from the Loan Fund is the amount of payments within the Loan Fund. However, all requested terms of the loan, including: principal amount; interest rate, amortization term; and loan term will be determined by the Authority upon review of the application. Factors which will be taken into consideration in determining the loan terms include: (i) the sources and amounts of other funds for the project; (ii) the availability of a first lien on the property as security for the loan; and (iii) other new or redevelopment developments and investments in the immediate vicinity of the development. The loan terms are expected to be identical to the terms of the applicable, funding source from the Authority's affordable, rental housing program requested in association with the application.

### *Compliance with Rental Restrictions*

The restrictions concerning the very low-income and very-low rental requirements applicable to the development will conform to the restrictions of the Authority's affordable, rental housing program with which the loan is requested. For those dwelling units developed by the loan's proceeds, the applicant must maintain records and provide reports, concerning compliance with the very low-income and very low-income rental requirements, identical to those that must be maintained for the Authority's affordable, rental housing program with which the loan is requested.